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ABSTRACT

Small businesses are meeting the challenges of a changing economy and leading the way in production and job creation. Small businesses especially will continue to benefit from demographic and societal shifts, in particular the emergence of the two-career family that fuels the service industry. Women and minority persons are the newest entrepreneurs. Often disillusioned with corporate jobs, they bring to small businesses new workplace priorities that include flexible work schedules to accommodate family obligations and personal growth. The elderly population is also affected by small businesses, both as a labor source and as an untapped market. Small businesses help lessen unemployment; however, in some areas small businesses are hard-pressed to find workers. A challenge to small businesses in the future will be finding and keeping enough good workers. Government leaders recognize that small businesses are good for the economy and have begun to lighten the burden of regulations and taxes to promote these businesses. Banks also are more interested in working with innovative enterprises than formerly. Although small business owners of the future will have to tackle such problems as labor shortages, rising personnel costs, and escalating competition both domestically and abroad, the outlook remains optimistic. (KC)

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SMALL BUSINESS IN AMERICA: THE YEAR 2000 AND BEYOND

Prepared by the Naisbitt Group, Washington, D.C.

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Prepared by the
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Small Business in America: The Year 2000 and Beyond

Introduction

Dramatic shifts in demographics, economics, and social values are shaping the small-business environment of tomorrow. The influence of the baby-boom generation (Americans born between 1946 and 1964) on small business will be apparent, reshaping products and services as well as work attitudes. In the future, small business also will be affected by a worker shortage coupled with an upsurge in entrepreneurial activity. Technology, too, will have a major impact, as small business becomes global with the help of advanced information systems.

In the shift from an industrial economy to an information and service economy, small business is leading the way in job creation and productivity. Small-business dominated industries continue to create jobs at a rate almost twice that of industries dominated by large firms. In all, approximately 668,900 businesses were incorporated in 1985, an increase of 5.3 percent over 1984.

Enterprises that meet the changing needs of society are doing well; those that don't, aren't. In particular, by providing services once performed by housewives, small-business people are capitalizing on the most far-reaching of these changes—the rise of the two-career family. An increasing percentage of entrepreneurs are women. In fact, women-owned businesses are the fastest-growing segment of the small-business population, according to the Small Business Administration. Minority-owned businesses also have benefited from a healthy economy and although they have yet to experience the success rate of women entrepreneurs, their numbers are climbing.

The trend toward less government intervention also has shot life into small businesses' competitiveness. On the whole, the recent wave of deregulation of various industries has benefited small business. New enterprises and jobs have sprung from formerly regulated industries,

such as transportation and financial services. Deregulation has spawned a more cost-conscious environment and more competitive pricing to the benefit of small business.

However, small-business owners continue to be burdened with underlying costs, such as the rising price of liability insurance and utilities. The liability crisis—which has forced some small businesses to close or operate without insurance—likely will be stemmed by state legislation. To trim other fixed costs, small-business owners must speak out against price and rate hikes.

The work force also presents new challenges. As the populous baby-boom generation gives way to the younger, baby-bust generation, employers face the problem of finding and keeping good workers. Small service companies—traditional employers of most first-time job seekers and of teenagers—will feel the greatest pinch. Small business must respond to tomorrow's work force with special incentives and flexible work environments.

In today's information age—characterized by rapidly changing technology—growing numbers of people stand to achieve the popular goal of owning a business. The number of business start-ups will continue to climb. Small business has proven to be more resilient than big industry in a shifting economy. Women entrepreneurs, in particular, have found success in meeting the needs of a changing society. Adaptability will be the key to future small-business success.

Tomorrow's Entrepreneurs: The Backbone of the New Economy

The 1980s may be the decade of the entrepreneur, as designated by President Ronald Reagan, but the 1990s will be the decade in which entrepreneurism is recognized as the backbone of American business. Sometimes driven by a dissatisfaction with the corporate rat race and an overriding desire to "be the boss," entrepreneurs are helping to fuel a small-business explosion.

Women are launching new businesses at a rate three times faster than men, often in partnerships with each other or their husbands. Baby boomers, particularly, are abandoning unfulfilling middle-management positions for the chance to make it on their own. A surprising number of retired workers are turning hobbies into business opportunities. Also reaping the rewards of entrepreneurism are relative newcomers to business ownership—minorities and non-profit organizations.

Over the next 15 years, the doors of financial institutions will open wider for small business, as increasing numbers of organizations are formed to aid entrepreneurs in innovative ways. Service businesses, especially those that cater to two-career families, will continue to flourish.

Women play an increasingly important role in small-

business growth, especially in providing services once performed by housewives. Cleaning, catering, temporary business help, party planning—all are areas in which women entrepreneurs have excelled.

Women also are venturing into once male-dominated industries, such as manufacturing, shipping, and farming, where they are likely to be more influential in the future. The Bureau of Labor Statistics puts full-time female ownership of small businesses at 2.6 million—one-third of all small businesses. However, the number of self-employed women is greater when cottage industries are factored in. Today, women-owned businesses account for more than $100 billion in annual revenue, a number which could double in the next decade amid a healthy, information- and service-oriented economy. By the year 2000, the U.S. will see substantial growth in the number of business start-ups by women.

Gains by entrepreneurial women are the byproduct not only of the information/service economy but also of higher education levels, greater work-force experience, and later marriage and childbirth. The result has been an exodus of women from low-paying, female-dominated jobs, such as teaching and secretarial work. These trends will add to the existing labor-shortage problem, to which employers are responding with greater incentives and job flexibility. One result, clearly market driven, will be higher wages for traditional female occupations.

Members of the baby-boom generation, often dissatisfied with a lack of upward mobility in their full-time jobs, are stoking the entrepreneurial fire, frequently as husband-and-wife teams. "It didn't matter how hard and long I worked [at my former job], I wasn't going to get any more money," recalls Deborah Livingston-White, who abandoned her career as a special education consultant with the state of Michigan to start International Consultants with her husband, Tyrone.

Forces other than job dissatisfaction—such as mergers and acquisitions—have added momentum to baby-boomer entrepreneurism. Since U.S. companies are expected to have twice the number of corporate managers they need by 1990, small-business ownership will become an increasingly appealing alternative.

America's diverse population supports a growing league of minority entrepreneurs. The number of businesses owned by blacks jumped 47 percent—from 231,203 to 339,239—between 1977 and 1982, according to the Census Bureau. Estimates placed the number of Hispanic-owned businesses in 1985 at 400,000. A recent Small Business Administration study found that, when compared to white-owned businesses, minority-owned businesses tend to be smaller and in more highly defined categories.

However, minority-business owners have started mov-

ing into areas that are unfamiliar to them, such as construction, manufacturing, and wholesale trade, as greater efforts are made to provide financing for minority start-ups. Local governments are fueling the trend by legislating that a percentage of contracts must be granted to minority-owned firms.

A controversial entry into the small-business arena is non-profit organizations. Non-profit hospitals, caught in a financial squeeze triggered by a highly competitive health-care market, were one of the first to give entrepreneurism a try. A hospital in Chicago, for example, leases space in its lobby to a McDonald's franchise serving the general public, while another in Clearwater, Fla., has a subsidiary for-profit company that runs a printing operation, laundry, and durable medical goods supply company. The Red Cross sells first-aid kits through its local chapters, and the Bank Street College of Education in New York offers what one distributor calls the best-selling piece of computer software in U.S. schools. According to statistics from the Business Coalition for Fair Competition, non-profit entities earned $239.9 billion—or 76 percent of their total income of $314.4 billion—last year from sales of goods and services.

Why should small businesses be concerned? Because businesses in the private sector are undercut by not-for-profit groups that receive government aid. Whether not-for-profits have an unfair competitive edge because of their tax-exempt status and other benefits, such as lower postal rates, will remain an important legal question for small businesses. In the future, business groups will intensify pressure for legislative sanctions against competition from not-for-profits.

Interest in entrepreneurism is clearly on the upswing, as indicated by a jump in activities on college campuses across the country. "I never worked for anyone else and I don't think I could start now," Mark David McKee, a junior at the University of Kansas and president of two companies, told *The New York Times*. "I'd rather be in charge of my own destiny. My goal is to be a millionaire by the time I am 25."

McKee may or may not see his dream come true, but universities are trying their best to steer young entrepreneurs in the right direction. By the turn of the century, entrepreneurism will be a fixture in business schools' curricula, fostering even greater interest in small-business ownership. American students, unlike their counterparts of the 1960s, are adopting conservative ideas, such as belief in the free-enterprise system. Combined with a recent surge of political interest on the part of college students, the result will be a new crop of politicians with strong small-business roots.

"Starting my own firm" has become a goal for hundreds of thousands of Americans.

This is good news for the economy. Small-business ownership by women will continue to flourish, with minority entrepreneurship not far behind. Minority businesses are likely to create jobs for other minorities in areas where pockets of unemployment still exist.

As the trend toward entrepreneurship becomes more pronounced, opportunities for would-be small-business owners will increase. As we approach the 21st century, we enter a new entrepreneurial environment in which many small and midsized companies will out-perform their corporate rivals in innovation, job creation, and financial growth.

Who Will Work for Small Business?

Tomorrow's entrepreneurs face not only fresh opportunities but also a work force that breaks the traditional mold. The "typical worker" no longer exists. The white male-dominated work place has been irrevocably altered by two-career families (60 percent of the average company payroll), women (more than half of all women with children under the age of six now work) and minorities.

Corporate incentives for early retirement have prompted older workers to re-enter the work force by way of small business. Meanwhile, the pool of new workers is shrinking as the baby-boom generation—whose members have been absorbed into the work force—gives way to the younger, less populous baby-bust generation. Resulting labor shortages will put unfamiliar pressures on employers.

By the year 2000, this diversity will become more pronounced. As we enter the 21st century, at least 80 percent of two-parent families will have both parents working outside the home. Women will achieve positions of greater responsibility and consequently gain more influence over businesses' personnel policies. Furthermore, Hispanics and blacks will be represented in greater numbers and will reach higher educational levels, increasing their impact on the way business is conducted.

Planning for profitability in the year 2000 and beyond must include consideration of these powerful demographic and sociological changes.

During the 1970s, 22 million workers entered the work force—at a rate of increase of approximately 2.7 percent annually. By the early 1980s the rate of increase had slowed dramatically. In 22 years, the older third of the baby boomers will begin to retire (median retirement age of males in the private sector is 62 years). The smaller baby-bust generation will not be large enough to fill the slots vacated by the retirees, resulting in a net loss of workers.

According to the Department of Labor, the number of workers aged 16 to 24 fell from 25.1 million in 1981 to 24 million by 1985, and will drop steadily to

20.2 million by 1995. Labor shortages, which already are apparent in high-growth areas such as Massachusetts, New Hampshire, Nassau County (Long Island, N.Y.), and Raleigh-Durham, N.C., will grow even more profound. The shortage will become critical for many small businesses, especially those that rely heavily on teenage workers, such as retail food and service firms.

Small-business owners will be at a disadvantage since large companies are able to offer heftier benefit packages and individually tailored compensation programs—financially out of reach for most small businesses.

George Rufo Sr., president and chairman of Poly-Matrix Inc., is experiencing the problem firsthand. For the Pittsfield, Mass., manufacturer of plastic cassette-tape boxes, losing employees to nearby General Electric is now a fact of life. Rufo's predicament is shared by small-business owners nationwide.

How can small businesses compete? By following the lead of larger corporations, with flexible work environments that include flextime, part-time and job-sharing schedules. To attract female workers, businesses will have to offer new working arrangements that accommodate the growing league of working mothers.

As part-time, permanent work gains acceptance in the business world, more older workers will come out of retirement. Currently, there are about 20 Americans 65 years or older for every 100 aged 20 through 64. In the past 20 years, the over-65 group has grown twice as fast as the rest of the population. Medical advances and healthier lifestyles not only have prolonged life, but they also have made increased activity possible during the retirement years.

Many employers are finding advantages in hiring older workers. In general, they are more experienced and motivated than other part-time, temporary workers. And they often imbue young workers with good work habits. As the population ages, businesses will serve a growing number of older customers. The ability of older employees to relate to these customers is invaluable.

In the struggle to attract and retain high-quality workers, an increasing number of small companies are "renting" workers. Employee-leasing firms handle payroll, taxes, insurance, unemployment, and workers' compensation to cover employees. In return, a business owner pays a fee to the firm. Some businesses even fire employees so they can rehire them from an employee-leasing firm. Under this new arrangement, workers are given better benefits and employers are spared time-consuming paperwork. Although liability questions about employee leasing—such as who is liable for employee-related costs if a leasing firm goes under—still exist, small businesses will continue to turn to this alternative arrangement.

Small business will have to adjust not only to changes

in the composition of the work force but also to a new attitude that work should be "satisfying." In response, businesses will alter traditional personnel practices and encourage new career development paths, thereby preventing employee frustration and disloyalty. (An increase in polygraph testing by businesses evidences a growing concern with dishonesty among employees.)

Employers will face not only a labor shortage but also a location imbalance. Many new service jobs are located in the suburbs, but unemployed youth in inner cities remain an untapped source of labor because of distance and inadequate transportation. In Gwinnett County, Ga., outside Atlanta, fast-food operators not only offer wages $1.50 above the going hourly rate, but bus in workers from the inner city 35 miles away. Independent businesses could benefit by following suit.

The changing work force will require businesses and the education system to share the burden of retraining and educating workers. In response, high schools in some areas of the country have begun teaching job "values," such as promptness, in business classes. Increasing numbers of small businesses are linking up with local schools to offer students course credits in exchange for work. In the long run, the worker shortage will bring local communities and businesses closer together as they search for creative solutions to a growing problem.

Small business and educational systems are playing an important role in solving job displacement by adopting a new attitude that job training must be a lifelong process. More than five million experienced workers were displaced from their jobs between 1979 and 1984. In answer, business, educators, and labor have joined together to ensure that training programs reflect the reality of the job market. In the entrepreneurial age, the ability to adapt is an important job skill.

Although the service sector is expected to employ 75 percent of all U.S. workers by 1990, less than 10 percent of its workers are union members, according to an AFL-CIO report. The new economy has pushed unions to the wall, and left them searching for ways to augment membership. Organized labor's newest targets are small entrepreneurial companies, although they have yet to be successful in organizing the technology industry. An AFL-CIO consultant said: "If unions are going to survive, they are going to have to come to represent workers in smaller units."

In future years, employers will need greater incentives to attract workers and keep employees motivated and performing efficiently. Arrangements that let workers adjust schedules to accommodate family and personal demands are one solution. Job-sharing and permanent, part-time status also will become more common, as the work force grows increasingly female. Owners of once

male-dominated businesses will find themselves in new territory, as they tackle questions of parental leave and day care.

The worker shortage—especially in entry-level positions—has far-reaching implications for small-business persons. Some retail food establishments will replace counter help with self-service. On the political front, the controversy over a subminimum wage may become moot as employers are hard-pressed to find teen workers. Minimum-wage laws could become irrelevant in areas of the country where the labor shortage is most severe.

Employers will have to put more effort and money into training, transporting, and even relocating new employees. Since employers must draw from a new pool of potential workers, attention will be given to the special needs of these workers—such as the elderly and handicapped. Often unable to work as fast as teenagers can, the elderly may require frequent breaks. Likewise, employers may have to make adjustments such as altering chairs, desks, and machines for handicapped workers.

The work environment of the 21st century will be flexible and its work force diverse. Tomorrow's work force will require an investment in training and worker incentives, but the end result will be greater motivation, innovation, and commitment.

The Underlying Costs of Small-Business Ownership

The underlying costs of doing business often are responsible for the first-time small-business owner's most pressing problems. Among these costs are liability insurance, employee health coverage, workers' compensation, Social Security tax, and unemployment insurance. Less obvious but of growing concern are telephone access charges, which can easily be underestimated.

The most staggering expense is the toll the current liability-insurance crisis is exacting on small business. A number of small operations have closed after attempts to obtain liability insurance proved futile. Those able to buy insurance are paying rate increases often higher than 300 percent. Other businesses just decide to "go bare," operating without liability insurance. Some businesses are finding an answer in self-insurance and state-regulated insurance pools, which provide minimal coverage.

Ask a roomful of small-business owners what their biggest worry is today, and the resounding reply is "liability." An outgrowth of changes in the insurance industry—partly the result of lower yielding investments—and the litigious nature of the public has forced many operations to close their doors or "go bare." Initially, high-risk businesses—bars, ski resorts,

pharmaceutical companies and doctors—suffered. But the crisis has trickled down to all types of businesses, especially small- and medium-sized companies.

The liability crisis transcends the dilemma of obtaining insurance; it results in lost jobs and lower productivity. It leads to higher prices for consumers, and adversely affects the worldwide competitiveness of U.S. companies, and it could make it harder for companies to get operating loans. Furthermore, it chills the entrepreneurial spirit.

Efforts to stem the liability crisis continue to gather steam. Economic loss and clogged court systems have prompted more than 25 states to pass new liability legislation, including limits on punitive damages that companies can be forced to pay, ceilings on attorneys' shares of settlements and awards, and sanctions to punish persons who file malicious suits. Meanwhile, increasing numbers of business persons and politicians are calling for some kind of uniform liability policy.

Liability is one issue that will not follow the trend toward less regulation. A system that establishes uniform awards for specific injuries is likely in the near future. In coming years, we also will see standards set for judging product design and safety warnings.

Advances in technology further complicate the liability picture. As new technological products are introduced at a faster rate, the possibility of more liability suits increases. In response, a statute of limitations on the period during which manufacturers can be held liable is likely. This is good news for fledgling businesses, especially those specializing in developing technologies, for whom future lawsuits are a major risk.

On the heels of the liability insurance crisis is a similar controversy over workers' compensation. Nationwide, insurance writers of workers' compensation coverage are losing 12 cents on every premium dollar, thus raising insurance costs for businesses. Costs for businesses are driven even higher by employees who collect money through the courts in addition to workers' compensation.

Several states have confronted the issue by proposing to recategorize certain injuries from "disability" to "impairment." This makes it more difficult for partially disabled workers to receive large or long-term awards. The trend toward state action is likely to grow more pronounced in coming years.

The costs of small-business ownership are hidden also within utility price structures. In particular, small business continues to pay the highest utility rates of the three largest customer groups. "Industrial" users—usually big corporations—get a break on utility costs because they are able to take power directly from transmissions lines. Small corporations—"commercial" users—often suffer because of "life-line" rates.

Life-line rates, essentially subsidies, are meant to ensure that every residential customer has adequate electricity. Although the intent of life-line rates is noble, small-business owners often pay larger percentage increases than do big corporations to subsidize residential use. To close the gap between small and big business utility rates in the future, small-business owners must have a more active voice in the utility-rate process.

Small business has felt the impact of the divestiture of AT&T, not only in basic services but also in maintenance, repair, and *Yellow Pages* advertising. Businesses now must pay access charges, meant to keep local companies' revenues at fairly constant levels. Big businesses can offset these charges with reduced interstate rates that small firms rarely qualify for.

Any large increase in operating costs is felt more acutely by small businesses than large corporations. This is particularly true of employee health-care costs, which have risen dramatically in the past 10 years. According to a survey by the Administrative Management Society, fewer than half of U.S. companies pay for employee-health insurance. Corporate giants led the way in cutting health costs by switching from conventional health insurance plans to health maintenance organizations, preferred provider organizations, and health-promotion plans.

One of the most successful ways for small companies to control health-care costs is to attack the problem at its source—the health of employees—by starting wellness programs aimed at reducing bad health habits on the job. Small firms can effectively tackle a variety of problems such as smoking, obesity, alcoholism, high blood pressure, unhealthy cholesterol levels, and stress. Specifically, smoking policies that restrict the use of cigarettes at work places would go a long way in encouraging healthy practices and thereby lowering employee-health costs. Offering an on-site exercise class is a simple way to promote exercise.

How big a share of future employee benefits should small businesses be expected to pay? This question will garner more controversy in the future, especially when small-business owners speak of payroll taxes. The burden of payroll taxes—Social Security, workers' and unemployment compensation—is felt not only in dollars but in time lost to paperwork. In particular, the deposit system for payroll taxes is cumbersome for small-business owners, some of whom must make eight deposits a month.

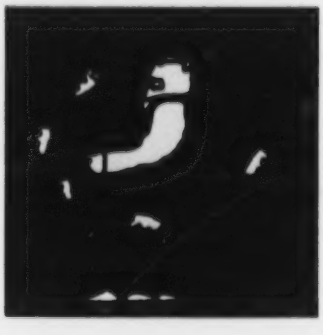
"We sat back and looked at [unemployment and Social Security taxes] as a cost of doing business without paying attention to how much more they were costing us," comments Michael Root, controller for Gavlon Industries Inc., an Austin, Texas, industrial coating firm with 20

employees. Social Security taxes have risen dramatically, escalating the matching contributions employers must make. Predictions that Social Security taxes could double by the end of the century have prompted urgings for reform of the payroll-tax system. Demand will grow stronger with every tax increase. Among the solutions that will be explored are ceilings on the percentages employers must contribute to Social Security and privatization of the Social Security system. In addition, private retirement plans are likely to become more popular with the baby-boom generation.

Calls for control of the underlying costs of doing business will grow more strident. The unifying voice will be small business, burdened most by current trends in liability, health-care costs, workers' compensation and payroll taxes. Many of these trends will reverse—or at least will be stymied—as reform is sought at the state and then the federal level.

Within the next few years, the liability-insurance question should come to a head, as more states put limits on court awards and settlements. States also have taken the initiative to revamp workers' compensation systems. Businesses will see their efforts to reduce costs start to pay off, not only in dollars but in more health-conscious employees. The future will bring mounting concern over the burden of payroll taxes, for which the proposed remedies are diverse and complex. Most important, businesses will find innovative ways to reduce costs without stripping employees of benefits.

Opening New Doors to Capital



Aspiring small-business owners always have had to reach into their own pockets—and often those of friends and relatives—for start-up capital. Once in business, they overwhelmingly have turned to commercial banks for loans. But deregulation of the banking industry has blurred conventional banking and investment practices, and added layers of complexity to long-term borrowing and investing. Interstate banking, non-bank banks, and banks that offer non-banking services have exploded onto the financial scene, demanding greater knowledge and sophistication of small-business owners and their company financial officers.

Although banking deregulation will benefit small business by encouraging innovative lending strategies and reducing the cost of financing, it is hastening the demise of traditional neighborhood banks. Meanwhile franchised banking offers small-business owners a new "high-touch" alternative.

The role of banks in small-business financing continues to change amid the fallout of banking deregulation, which has allowed lenders to enter new loan markets. In addition, small businesses are beginning to take advan-

tage of a wave of investment instruments to raise capital. For example, the junk bond (or high-yield bond) market offers small businesses a new way to fund capital expenditures.

A 1984 survey of small businesses nationwide revealed that small-business owners believe competition within the banking industry had increased substantially since deregulation. Is competition in the financial industry good for small business? So far, yes, because small-business borrowers now can choose from a variety of competitive sources, such as local and out-of-state savings and loans and non-bank lenders. In addition, commercial banks are turning to innovative strategies for long-term lending.

One example is the Illinois Mortgage Program which uses securities to fund long-term commercial mortgages. This program, developed by E. L. Barnes and Company, a Chicago-based mortgage brokerage firm, uses a creative partnership of the state, a bank, an insurer, and mortgage banking and brokerage firms, to spur small-business development and job opportunities through long-term financing for commercial and industrial property. To fill small-businesses' need for long-term capital, commercial banks will continue to experiment with innovative strategies, including using pension fund reserves as development deposits.

A recent survey of bankers estimates that the number of small banks (under $100 million in assets) will decline by almost one third to about 9,600 in 1990, while the number of large banks (more than $1 billion in assets) will increase by 26 percent to 290, mainly the result of mergers and acquisitions. With this change comes a concern that banking's "personal touch" will disappear. New branch managers who replace familiar faces at neighborhood banks are less likely to know individual business histories.

An answer may be found in franchised banking, which has evolved since America's first comprehensive bank franchise was introduced in 1982 by First Interstate Bancorp of Los Angeles. Franchised banking, a form of interstate banking, works like this: Franchises (usually small banks or thrifts) pay a certain fee to another, larger bank or S&L (the franchisor) and in return receive a national identity, on-site management consulting, national transaction capability, and a personal financial analysis program. Other options vary but may include real-estate development participation and money-market access. Most important to small-business borrowers, however, is the fact that franchisees have acccess to a greater pool of assets and usually retain existing bank personnel.

Franchised banking networks also open up new markets for businesses. A Wisconsin farmer never would have sold his cattle in Korea if his bank, Citizens

Bancorp of Sheboygan, Wisc., had not been a franchisee of First Interstate Bancorp of Los Angeles. The buyer from the Far East was a customer of the Los Angeles operation. This deal and many others like it are possible through mutual exchanges between members of franchised bank networks.

Small-business owners have been originators of their own new lending strategy: group banking. By joining together and using their collective checking accounts as bargaining chips, groups of small-business owners can secure lower interest rates from commercial banks.

Combining borrowing power has worked so well for the Maryland-based Association for Small Business Advancement that the association now offers members group rates on auto leasing, employee benefits and commercial insurance. An outgrowth of group banking has been the proliferation of associations specifically for minority-business owners.

States likely will continue to intensify efforts to help small business with capital needs. At a recent conference on state economic development, Los Angeles businessman Donald Gevirtz told an audience, "Governors should make heroes out of entrepreneurs." Many states are doing just that. The Great Lakes states, in particular, are strengthening entrepreneurship through a mixture of public and private loans, loan guarantees, and equity investment. Michigan has taken a big step by tapping state pension funds for small-business investment. A total of $100 million of pension fund assets will be invested in private venture-capital pools, provided the firms pledge to open offices in the state.

States also help small businesses obtain start-up capital through the establishment of "incubators." Incubators not only provide space, equipment, management and marketing assistance, but they also supply companies with venture capital contacts. Sponsored by private investors, universities, or government agencies, incubators vary in their objectives and fee structures. Those operating on a venture-capital basis often admit only promising growth companies. Non-profit incubators are more charitable, operating mainly to attract and stimulate local industry.

The small-business person of the future still will rely on personal resourcefulness for success but will receive help along the way from new sources. To benefit from the rapidly changing financial scene, small-business owners will become more savvy about investment. For entrepreneurial companies, incubators will continue to open doors to start-up capital not only in the technology field, but also in fast-growing service-industry businesses. Recognizing the contributions of small business to the economy, states are offering financial assistance and management direction. Finally, small-business owners

eventually will take advantage of a proliferation of creative financial strategies, in part the result of bank deregulation. To be competitive in their own industries, small businesses must seek out the best financing possible.

Technology Revolutionizes Business

No other phenomenon has revolutionized—and traumatized—the business world more than the incredible pace at which new technology is introduced. The application of such scientific and engineering developments as personal computers and robots to business operations not only has increased efficiency but has made information available to almost anyone seated at a computer terminal. Concern over whether technology will replace workers or create jobs will grow stronger. Technology will change consumer purchasing practices, streamline inventory control and create new opportunities for entrepreneurs. In the new information age, entrepreneurial ventures made possible by technology will flourish.

The commercialization of new technology—especially biotechnology—has turned many scientists and engineers into overnight entrepreneurs. Biotechnology, the umbrella term used to describe a myriad of genetic engineering processes, has evolved mainly in laboratories of small companies, often headed by former employees of large companies. But the biotech industry is in a stormy transition period caught between research and commercialization. Although small biotech companies are rich in research talent, they often lack the marketing muscle and financial backing to translate their discoveries into profits.

The dizzying pace at which the biotechnology industry has advanced has forced young companies to re-examine their operations. Many have moved in a traditional business direction, replacing scientists-turned-businessmen with experienced managers. Biotech start-up companies are searching for niches. DNA Plant Technology Corp. of Cinnaminson, N.J., for example, is test-marketing stringless celery sold in packages that ensure a five-week shelf life.

Burgeoning entrepreneurial activity in the technology industries is fueling a separate entrepreneurial industry—management consulting specifically for start-up technology companies. Most young technology companies are headed by scientists with little business background, providing consultants with a gold mine of potential clients. In many cases, consulting firms introduce technology companies to marketing consultants, patent attorneys, sources of financing, suppliers and customers.

Technological advances require work environments to adapt to change. Since technology itself breeds more

technology, the speed with which discoveries are made will continue to increase. To keep up with new technology, businesses must be prepared to train and retrain workers. Aside from providing workers with greater job mobility, technology will require and foster a new attitude that work is an ongoing learning process.

The cumulative nature of technological discovery will have a major impact on patents and copyrights. As new technologies replace existing technologies at an increasingly rapid pace, long-term patent rights will be moot. It could become pointless to protect an idea or technology that is likely to be replaced with something better in several years.

Computerization—the underpinning of office technology—has dramatically changed the way the United States works. At the end of 1983, less than 8 percent of United States office workers had personal computers. By the end of the '80s, that percentage will grow to 40 percent. Because of computerization, a growing number of companies offer flexible schedules and "telecommuting"—allowing employees to work at home on personal computers linked to office computers. Technology in the work place also has meant that employees must undergo periodic retraining to keep up with advances. Moreover, the spread of personal computers is fueling a new wave of information entrepreneurs.

There is no question that technology has altered virtually every aspect of business. But will small businesses be able to afford it? Even though advanced technology systems, such as robotic warehouses (integrated systems of specialized robots), are used mainly by large companies, future availability to small businesses is not out of the question.

Current efforts to lower the cost of robotics will make automation even more attractive to the small-business owner. A handful of robotics companies are considering leasing robots to small companies, at a cost of $3.50 to $7 per hour. Joint ventures between robot manufacturers in the United States and China also could bring down the price of robotics.

The controversy over whether robots and other computers steal jobs from humans rages on. In some cases, they will replace workers, such as those performing hazardous or repetitive functions and information retrieval. However, new jobs will be created by robotics. An example is Tandon Corporation's Megastore unit, a California-based maker of computer peripherals, which slashed costs and improved quality by employing 14 robots. A byproduct of the robots was an increase in the number of workers needed to keep pace with a flood of orders—itself a result of higher productivity at the hands of robots. Other companies are hiring engineers, com-

puter programmers and machinists to keep up with computerization.

The implications of work-place automation for small business and society are far-reaching. Although it has created new businesses, such as computer consulting, computerization also has intensified concern over security and privacy. As businesses link computer systems, access to confidential information will become easier.

On the other hand, technology provides small businesses with a major security weapon against the $30 billion-a-year shoplifting problem. Sophisticated electronic surveillance systems are used by small businessess, as well as retail giants, to thwart would-be shoplifters. Future anti-shoplifting methods will include magnetic targets hidden in products and micromagnetic systems that disappear into product packaging.

Technology will have a major impact on the retail industry in the form of electronic shopping—shopping via computer terminal kiosks. Although electronic shopping has been adopted mainly by large retailers, growing numbers of small businesses will experiment with the idea as the price of technology drops.

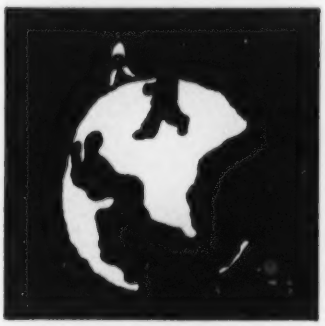
By 1990, sales from electronic retailing could jump to $17 billion, up from 285 million in 1985. And by the year 2000, electronic kiosks featuring directories, consumer-product information, and back-lit panels for display advertising, will be fixtures in shopping malls nationwide.

Kiosks will be used to sell merchandise directly from manufacturers, with the result that their may be fewer stores in some parts of the country. This is especially good news for small manufacturers, since it will let them reach markets not served by existing stores and will cut overhead costs.

Electronic technology not only trims the costs of selling, it saves money by tightening inventory control. Small businesses soon will be able to afford the scanners necessary to read magnetic bar codes found on almost every consumer product, from soup to magazines. In addition, computerized distribution centers that employ elaborate systems of computer conveyor belts already substantially trim warehouse costs.

Computers, in the form of robots or desk-top terminals, will be found in almost every business. Automation will move beyond manufacturing into retail and professional services. For small business, technology will cut operating costs and increase productivity.

Small Business Enters the Global Market



As technology propels the United States into the information age, a new group of "Yankee traders" are successfully selling their products and services in foreign countries. A growing number of small firms will join the ranks of Yankee traders buoyed by a new wave of state programs aimed at introducing companies directly to foreign markets. Some small businesses, especially those selling high-tech goods, employ agents and distributors as go-betweens, often recruiting local workers instead of transferring American employees. What is the secret to profitability in overseas markets? Find a niche, but be willing to adapt to market changes.

American business has always faced pressure from abroad, but import competition has hit an all-time high. The revolution in computers, communications, and transport has made it possible for just about anything to be manufactured and transported anywhere. Consumer buying habits have changed in accordance. A global economy has evolved that affects the way the United States shapes its monetary policies and its diplomatic relations with allies and trading partners.

Lured by an abundant and cheaper foreign labor force, American entrepreneurs are setting up shop in developing countries as a way to gain entrance to the global market. As a result, the United States is seeing the emergence of a global work force not only in conventional manufacturing industries, but in new information-based industries. The reason? It takes communications firms only a few weeks to set up shop.

About 40 United States companies already have data-entry facilities in developing countries such as India, China, South Korea, Mexico, Jamaica, and Barbados. A congressional Office of Technology assessment report released in 1985 states that ". . . all signs indicate that offshore data entry could undergo rapid growth over the next 10 to 15 years."

As technology advances, the international work force will expand to include a wide range of professional jobs such as engineers, computer programmers, economists, financial analysts, writers and researchers. Advanced communications networks also will allow companies to establish "communications centers" in the United States, connecting global manufacturing operations.

State and local governments and business organizations are trying their best to help small firms adapt to the global economy through trade and at the same time, bring jobs back to the states. Although state involvement in export trade is new, it is expanding rapidly. Currently, 29 states have trade offices abroad, as well as programs encouraging trade by small businesses. For example, a three-year program under the auspices of the Michigan Department of Commerce has boosted Michigan exports to Nigeria and other African countries.

Michigan is not alone in its race for African markets; Indiana, Massachusetts, Connecticut, Rhode Island, Vermont, New Hampshire, Maine and Ohio have similar programs. California allocated $10 million for promoting products abroad in 1986—up from $400,000 in 1982.

In Atlanta, the chamber of commerce has turned its attention to small business by coordinating business missions (most recently to Paris) for its members. On the average, participants come home with at least a dozen solid business leads. As a growing number of local organizations take up the cause for small business overseas, the doors to the global market are likely to swing open.

Mounting competition in the banking industry has forced private banks to drop their reluctance to support international ventures by small businesses. The federal government has promoted global trade by small companies with direct and guaranteed loans for exports. In a recent move, the Agency for International Development provided $3.5 million to Thailand's private-sector development program enabling the country to investigate the possibility of trade with U.S. businesses. In addition, China's powerful State Economic Commission recently launched a program to attract small enterprises from the West. The plan is to link foreign entrepreneurs with small Chinese companies in an effort to improve the country's long-term development.

In response to increased business activity overseas, "export management companies"—companies that serve as intermediaries between small business and foreign markets—have sprung up. A New York-based unit of Shinnihon Kohan Company of Japan recently was established to make it easier for small companies to sell products and services in Japan. The company arranges partnerships between would-be American exporters and Japanese firms or exporters. Other foreign companies will follow suit.

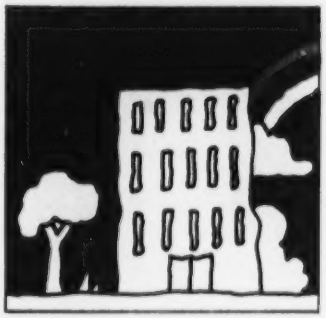
Export management consultants help small firms determine which products will sell in certain markets, since securing a niche is essential to success in foreign trade. "To compete overseas today, U.S. manufacturers need unique products that fill a market void or that have a technical advantage over competitive goods," explains Peter Green, executive director of the National Association of Export Companies. "While high-tech products are the most promising, the market is not limited to this. One exporter sells, of all things, sand to Saudi Arabia—a type of sand used for swimming pool filters not available in that country."

Over the next 15 years, states are likely to establish trade offices not only in Europe and Japan but in a number of developing countries. The list of joint ventures between U.S. and foreign firms will be expanded to include small businesses. As they look for ways to benefit

from the global market, growing numbers of small businesses will turn to export management consultants. Other small firms will continue to benefit from the new global work force.

More than ever, success in the global business arena depends on "nichemanship" and the ability of small-business owners to understand their markets. It also will require better understanding of foreign cultures, language and consumer buying patterns.

A Bright Future for Small Business



Small businesses are meeting the challenges of a changing economy and leading the way in production and job creation. They have found a new kind of success as the shift from a manufacturing economy to the information/service society continues. At the heart of this success is the entrepreneurial explosion, which has shed its "pipe dream" image and secured a powerful position in the mainstream of business. Small business especially will continue to benefit from demographic and societal shifts, now permanent components of the U.S. lifestyle. In particular, the emergence of the two-career family will continue to fuel a healthy service industry.

Small-business ownership has caught on in a big way. Women and minorities (many of them members of the baby-boom generation) are the newest entrepreneurs. Often disillusioned with corporate and public-sector jobs, they bring to small business new work-place priorities that include flexible work schedules to accommodate family obligations and personal growth. Day care, parental leave, flextime, continuing education are all issues of importance to the new work force and must be addressed by small business.

Not to be forgotten in tomorrow's work force are the elderly, whose numbers will skyrocket over the next 15 years. The elderly population will have an increasingly important impact on American business both as a labor source and an untapped market.

Although corporate America admittedly is cutting back hiring efforts, small business is helping to chisel away at unemployment. In fact, small firms in some areas of the country are hard-pressed to find enough workers. A future shortage of young workers is going to make it even more difficult. Small business will have to work harder to attract and keep good workers.

Growing numbers of politicians, governments, and community leaders realize that what is good for small business is good for the economy and, thus, popular politically. States continue to lighten the burden for fledgling companies through the establishment of incubators, special loans and changes in income tax laws. The banking industry, too, has a heightened interest in small businesses since deregulation took effect and offers

innovative lending strategies and competitive sources of capital.

Amid a healthy economy, the growth of small business continues to create new opportunities, including an entirely new and profitable industry made up of entrepreneurs advising other entrepreneurs.

Although small-business owners of the future must tackle problems such as labor shortages, rising personnel costs, and escalating competition both domestically and abroad, the outlook remains optimistic. Many small companies plan to boost employment, expand operations, and increase capital expenditures. Despite the risk of failure, Americans incorporated more than 445,000 businesses between January and August of 1985—13,896 more than during the same period the previous year. Some of these will fail. But there will be people that succeed—sometimes after three or more tries. It is apparent that small business is an integral part of this country's economy and stability and character.